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# JUMPSTARTING AGRIBUSINESS MARKETS

HOW CENTRO DE DESAROLLO DE AGRONEGOCIOS AND USAID/HONDURAS  
HELPED SMALL PRODUCERS CONTRIBUTE TO THE REBIRTH OF A SECTOR

Geoffrey Chalmers, Michael Field, and Jeanne Downing

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## EXECUTIVE SUMMARY

The Microenterprise Development office at USAID has focused much of its recent efforts on generating growth while reducing poverty in poor communities. This paper tells the story of how one USAID program in Honduras worked toward accomplishing this goal in a post-disaster setting. This case study has three central objectives: (1) to describe a “jumpstarting” approach to agricultural development that seeks to achieve immediate results while incorporating a plan for long-term sustainability; (2) to understand the conditions under which “jumpstarting” can be part of a long-term development strategy, and (3) to present some guiding principles for sustainability to ensure that the results of such efforts last beyond the life of the project.

Centro de Desarrollo de Agronegocios (CDA), an agribusiness project implemented by Fintrac, a small U.S.-based consulting firm, was launched in 1998, following Hurricane Mitch. CDA faced multiple challenges in its effort to “jumpstart” agricultural development in this post-disaster environment, where farmers had a history of bad experiences with donor-funded projects. To achieve immediate results and long-term sustainability, CDA developed an implementation philosophy that serves as the organizing framework for this case study and includes the following precepts:

- Overcome the **credibility** gap with buyers and small producers by

achieving measurable success early in the project;

- Achieve **sustainability** by transferring skills and information to small producers, while ensuring their access to commercial sources of services and inputs;
- Achieve success by understanding the many aspects of the **local context**, and adapting project implementation to this context.

This paper is the result of a long period of productive collaboration between CDA, Fintrac, USAID/Honduras, and USAID/MD. A two-person technical team, consisting of Dr. Jeanne Downing and Mr. Geoffrey Chalmers,

from USAID’s office of Microenterprise Development, first visited Honduras in 2002; this trip put into motion an ongoing dialogue and process of sharing lessons between Honduras and Washington. Several months after the initial trip, another two-person team, consisting of Mr. Chalmers and Mr. Rodrigo Carvajal, a consultant with the Louis Berger Group, Inc., visited Honduras to conduct more in-depth field work. USAID/MD especially wishes to thank the staff of the CDA project, and Michael Field for his help in the conceptualization and drafting of this paper.



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# INTRODUCTION

## SETTING THE SCENE: HONDURAS IN RUINS

When Hurricane Mitch hit Central America in October 1998, Honduras was devastated. Thousands were dead, missing and homeless, and the economy was in ruins. Fully half of Honduras' population of 5.6 million was directly affected by the Americas' worst hurricane in decades.

The country needed quick action to recover, and the USAID Mission was to be a key partner in this effort. After rebuilding infrastructure and dealing with the resultant health crises, USAID began considering how to quickly and effectively reinvigorate the decimated sectors of the economy that had once provided income and employment to millions of Hondurans. Horticulture was one of the sectors selected for rehabilitation. Key to a future program in agriculture was winning over the hearts and minds of farmers, who still harbored mistrust of donor-funded agricultural projects which had, in the past, provided poor advice.

Meanwhile, on the world fresh-produce market, supermarkets were becoming increasingly important players in developed and developing countries alike. They were also concentrating their orders with a small number of large producers—potentially spelling trouble for smallholder farmers. Within Honduras, a number of regional supermarkets—from neighboring Costa Rica, for example—were competing with smaller national stores, a trend that

would pose both challenges and opportunities for smallholders.

While the policy environment in Honduras was not an enabling one, it was not a major obstacle facing CDA. There were no serious export restrictions, stifling trade policies, or exchange rate controls. Nonetheless, regulations, which hampered small firms from legally registering their business, added to smallholders' challenges of selling to supermarkets.

## CDA'S CORE PHILOSOPHY

Fintrac developed a proposal for USAID/Honduras aimed at increasing sales, income, and employment for roughly 1,200 “lead” clients, made up of more progressive farmers and groups of smallholder farmers, with whom CDA would work directly. Fintrac proposed working in the horticulture sector with farmers and firms of all sizes, from micro- and small- to medium- and large-sized. While promising that CDA would achieve more long-lasting results than previous projects, Fintrac set ambitious targets for the overall growth of the sector and for income and job growth of lead clients.

To attain both quick and sustainable results, CDA developed a philosophy built around three core principles, which form the organizational basis of this case study and the foundation of their intervention strategy. These core principles include:

- achieve credibility through early success;
- achieve sustainability through skills transfer and upgrading; and
- adapt project implementation to the local context.

Fundamental to this philosophy was the belief that quick and impressive results produce a demonstration effect that is critical to gaining the trust of farmers, firms, and donors alike. CDA eschewed longer term and more indirect approaches—for instance, those which develop the capacity of stand-alone service providers—preferring to work directly with clients. CDA's approach derived from the belief that sustainability comes from industry actors that can solve their own problems and that develop the capacity to grow without external assistance. Finally, CDA staff saw that the circumstances that made Honduras and the post-disaster situation of the time unique—that is, the local context—had to be considered in the project design.



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## CREDIBILITY THROUGH EARLY SUCCESS

From the beginning, CDA confronted a serious credibility gap amongst the farmers, exporters and buyers that it aimed to assist. To address this problem, CDA adopted a three-pronged strategy to overcome the credibility gap:

- Demonstrate to “lead clients” that effective technical assistance can produce real results for them.
- “Get it right the first time”: demonstrate performance to larger buyers and exporters.
- Focus on ways of addressing recurring problems—not “one crop” or “one deal” solutions.

### DEMONSTRATE TO “LEAD CLIENTS” THAT EFFECTIVE TECHNICAL ASSISTANCE CAN PRODUCE REAL RESULTS

The credibility gap among actors in the horticulture value chain derived from a history of mistrust. Farmers did not trust extension workers because of past ineffective and even counter-productive advice. Larger buyers did not trust smaller farmers to deliver the quantities and quality of products needed to fulfill large orders. Neither farmers nor buyers fully trusted the “coyote” middlemen, who were the most common intermediary between the two.

To overcome the mistrust among value-chain actors and their collective suspicions of donor- or government-funded initiatives, CDA had to achieve results early. Initial success they

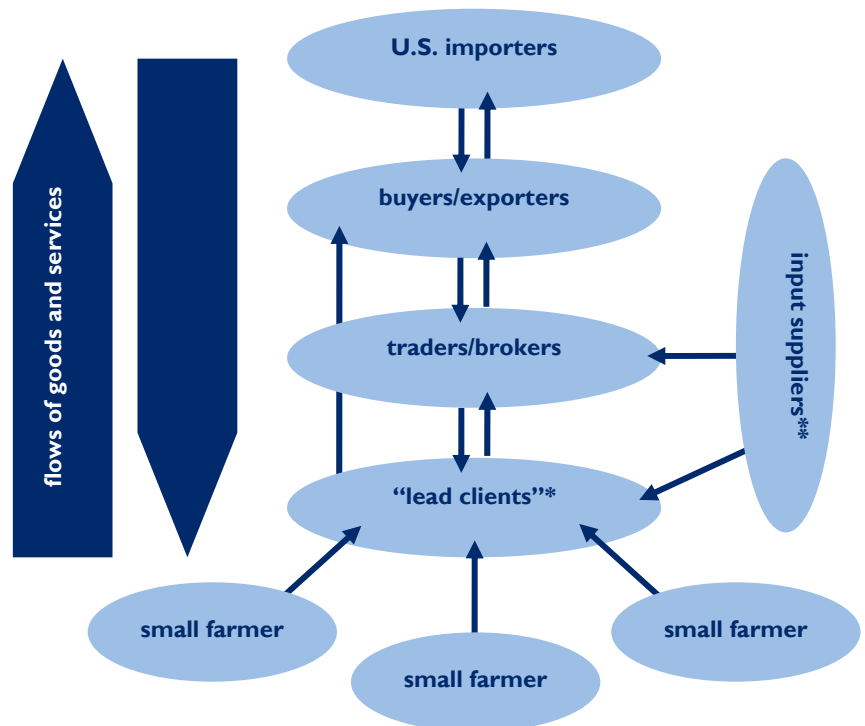
believed would also create a demonstration effect that would encourage copycatting by lead clients’ neighbors and further consolidate, multiply and sustain project impacts.

To achieve quick results, CDA set a new standard for technical assistance. Under CDA, extension agents would be technical experts with experience in growing and commercializing products. They would not merely provide technical assistance but also directly engage in the entire product commercialization process. This direct

involvement included the identification of markets and specific buyers; the preparation and remittance of product samples to interested parties; and, in some cases, the negotiation of transaction terms.

The sought-after results came quickly and were impressive. In just one year (2001–2002), CDA “lead-client” income and employment rose by 33% and 48%, respectively. The impact on microgrowers and microprocessors—that is farmers and processors with annual sales under \$6,600—was

## HORTICULTURE VALUE CHAIN IN HONDURAS



\*Lead clients are either high-potential individual farmers or groups of small farmers. Lead clients work directly with the CDA project.

\*\*Includes agricultural inputs stores, seedling producers, and irrigation equipment vendors.



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particularly strong, with income and job increases of nearly 117% and 60% respectively over this same period. The following year, these microgrowers and microprocessors saw their incomes grow by 203%! Overall client sales rose by 38% during 2001–2002, and 35% during 2002–2003.

Given the depressed state of the Honduran agricultural sector following the hurricane, these gains naturally attracted attention. The yellow flags CDA used as traps for crop-killing pests caught the eye of both buyers and neighboring farmers to “lead clients.” Driving through the Honduran countryside, these yellow flags dotted farmers’ fields and indicated CDA’s “system” at work. Comprised of a series of techniques ranging from drip irrigation and staggered production to environmentally friendly pest and disease control, this system visibly produced results for “lead clients” and led some of their neighbors to emulate this success.

## GET IT RIGHT THE 1ST TIME

Achieving quick and impressive results proved to be important for the long-term growth potential of the entire industry or value chain. Sophisticated value chains—like non-traditional fruits and vegetables exported to U.S. consumers—have limited windows of opportunity. Because opportunities for participating in these sophisticated chains are limited, “getting it right the first time” is the golden rule. For farmers, getting-it-right meant that they had to demonstrate to exporters an ability to meet an order and comply with market requirements on their first opportunity. They were rarely given a second chance.

To ensure success the first time, CDA played a direct role in brokering and overseeing initial orders—sometimes holding the hand of small farmers and acting as a moral guarantor between farmer and exporter. As a result of success “the first time,” CDA was able to convince large buyers that smallholders could meet their demands

and be effective and dependable suppliers.

However, meeting exporters’ requirements was not always simple. Beyond imparting production advice, helping organize producer groups, and/or brokering deals with large buyers, CDA also helped farmers with upfront investments. To be successful, farmers needed an effective irrigation system, without which the rest of CDA’s package of techniques and recommendations is not feasible. Yet, a full-cost drip irrigation system costs thousands of dollars, beyond the cash-flow realities of many small farmers.

To overcome financial constraints, CDA co-invested or, in some limited cases, subsidized large portions of the costs. CDA saw these investments and subsidies as necessary to achieving the desired leveraging that comes with an effective demonstration effect. Nonetheless, this practice raised a question: how would poorer farmers, interested in emulating the CDA model, participate without project assistance? If those not directly assisted by the project cannot afford the CDA “system,” they would be unable to replicate the success of CDA “lead clients.” CDA has already made important advances in this area, by finding creative and market-driven ways of reducing the up-front investment costs. These efforts are discussed below.

## FOCUS ON WAYS OF ADDRESSING RECURRING PROBLEMS

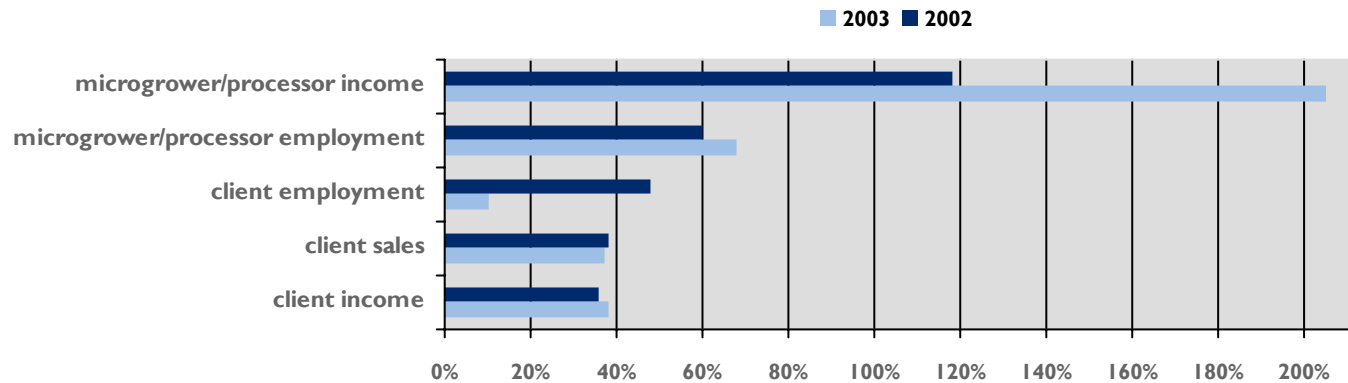
Another key element to CDA’s strategy for helping small producers meet the

demands of the international market was to impart to farmers an ability to address their recurrent problems. Ensuring that “lead clients” had the skills and know-how to grow and sell multiple crops, for instance, meant that they were better able to handle the inevitable changes in market demands.

The set of skills and information—including integrated pest management, planting techniques, post harvest handling, and marketing—CDA transferred to their lead clients could be applied to multiple crops. This allowed producers to more easily switch to new products in response to market changes.

By combining the knowledge, skills and know-how taught by CDA staff with information on market trends, farmers could alter the composition of their product portfolio. Imparting to farmers this flexibility enhanced the sustainability of project results.

RESULTS: ANNUAL INCREASES





# SUSTAINABILITY THROUGH SKILLS TRANSFER AND UPGRADING

After nearly 2 years of working to improve production and sales for “lead clients,” CDA took on a new programmatic challenge. While maintaining their focus on results, project management looked to build stronger systems for sustainability—to ensure that the results produced would last after the end of the project. To achieve sustainability, CDA incorporate four precepts into their philosophy:

- Build on existing actors and relationships for provision of technical assistance and expertise, inputs and technologies.
- Promote mutually beneficial “win-win” relationships by demonstrating to more sophisticated actors in the chain how transferring skills to more isolated actors can result in benefits for all.
- Transfer provision of technical assistance & expertise, needed on a recurring basis, to local actors.
- Shift commercial provision of inputs and technologies to local commercial actors.

## BUILD ON EXISTING ACTORS AND RELATIONSHIPS

Borrowing some ideas from the emerging “business development services” field,<sup>1</sup> CDA staff looked to

strengthen the roles of existing input suppliers, brokers, exporters, trade associations, agricultural schools and other institutions/organizations in providing the support needed by buyers, exporters and farmers that CDA had provided previously. If strengthened, these existing firms were the best and most sustainable sources of seedlings, packaging, improved inputs, market information, transport, technical assistance, coordination and marketing. Moreover, they already had commercial relationships with farmers. To strengthen the capacity of these potential service providers, CDA staff took them out on site visits, where they had the opportunity to learn the skills, methods and technologies that were so successful for CDA and to see firsthand the strong demand for services.

CDA also worked with input suppliers and exporters to facilitate the provision of what are called embedded services: that is, technical assistance that is

bundled with the sale of a product by an actor in the supply chain. For instance, input suppliers already supply farmers with seeds, pesticides and other supplies. In selling these products, these suppliers are in a position to provide technical assistance, the cost of which they can bundle into the cost of the input. Provision of embedded services by input suppliers is illustrated below.

The suppliers of embedded services actually transfer skills from more sophisticated actors in the supply chain to more isolated small farmers, thereby enhancing farmer productivity through commercial and therefore sustainable exchanges. Moreover, since suppliers had already established trust with farmers, therefore farmers were willing to accept their advice as reliable.

### A DAY IN THE LIFE OF A CDA TECHNICIAN

Ricardo, a “technician” (extensionist) for CDA, recently got a phone call from the owner of a rural agricultural supply store who works closely with CDA. His question today was about the technical bulletins (developed by CDA) he carries in his shop. His customers rave about the bulletins, saying they are informative and specific enough to be highly practical. The only problem is, his customers not only read them; they also ask follow-up questions he can’t answer. Ricardo invites the shop owner to join him on his scheduled visit to one of his lead farmers. He listens as Ricardo explains proper fumigation techniques and inspects tomatoes for pests and disease. Learning by doing, the shop owner becomes a better provider of both goods and services to his current and potential clients—and without knowing it, he has also become an “embedded” BDS provider, delivering services on a commercial basis within an existing relationship and without charging a discrete fee.

<sup>1</sup> See the Web site of the Committee of Donor Agencies for Small Enterprise Development, [www.sedonors.org](http://www.sedonors.org), for more information on the business development services field.

## PROMOTE “WIN-WIN” RELATIONSHIPS

CDA built off of existing firms and their inter-relationships in order to improve the flow of “goods and services” and information up and/or down the value chain. Maximizing these flows, however, sometimes necessitated improving the nature of inter-firm relationships. While consensual and based on commercial terms, the relationships among firms—especially those of different sizes and functions—tended to be exploitative. Where exploitation was prevalent, it was clear that CDA would need to promote a “win-win” mentality among value-chain actors. Otherwise the project might inadvertently reinforce unproductive or even predatory relationships.

To foster “win-win” relationships, CDA adopted two strategies. First, the project demonstrated the benefit to the more sophisticated actors—including exporters, processors, and market intermediaries—of improving the capacity and quality of growers. Second, CDA created competitive pressures by identifying new market opportunities for producers, thereby creating incentives for exporters, processors and/or market intermediaries to win the loyalty of growers.

The owner of an agricultural supply shop illustrates the first “win-win” strategy: demonstrate the benefit of improving growers’ skills, know-how and access to information. In the case of this shop, CDA promoted their principle of reducing dependence on chemicals, believing that growers will benefit if they use fewer chemicals

applied properly and/or if they use environmentally friendly pesticides and biological agents. Yet, the dilemma for the shop owner was that his, like most input supply shops, counts on sales of chemicals as a large portion of their revenues. Thus, recommending reduced chemical use to his clients would seem to go against his self-interest. Over the long term, however, dispensing quality technical information and advice that helps growers improve their efficiency and yields, is in fact very much in the self-interest of input suppliers.

This particular shop owner eventually came around to this view, realizing that “I am better off if they are better off—they grow more, buy more seeds and other inputs, and they pay me back their loans!” Similarly, in the case of the produce broker (see sidebar), CDA was able to demonstrate the mutual benefit of acting as a transparent intermediary.

In working with coffee cooperatives, CDA utilized the second strategy to achieve “win-win” relationships: create new competitive pressure on brokers and intermediaries by facilitating the growth of other market channels. By helping grower cooperatives link directly to large in-country exporters and U.S. buyers, CDA indirectly provided a commercial incentive for intermediaries to improve the quality and transparency of their services. With access to technical training in coffee de-pulping and drying, cooperatives and their members were able to sort and grade the beans themselves and thereby sell at a premium while by-passing those brokers who failed to add sufficient value in their dealings with producers.

## “THE GOOD COYOTE”

“Coyotes” refer to the ubiquitous middle men who buy growers’ produce at the farm gate and sell it in the cities without disclosing the final price. Generally coyotes do not pursue “win-win” relationships. Rather, many tend keep as much information as possible from both their smallholder producers and their end buyers. Yet CDA interventions proved it possible—at least some—to change their behavior to a more value-adding role, in which they see the benefit of being more transparent and offering market information to growers. After finding the best possible price for the product in the final market, some coyotes now return to show growers the final sale receipt and pay the farmer the full price less their commission (typically in the range of 20–25 percent, negotiated up front). In this way, growers begin to detect market trends and have more choices in selling their product. The coyote benefits by cultivating loyal clients, who appreciate the transparency as well as the access to information. Of course, there is a tradeoff in this new model: some of the risk that the coyotes previously took (such as a sudden drop in the price that the product commands in the market) has now been transferred to the producer. For now, farmers seem willing to trade this increased risk for greater transparency and sense of being treated fairly.

## TRANSFER TECHNICAL ASSISTANCE AND EXPERTISE TO LOCAL ACTORS

As CDA balances the need for quick results with the importance of sustainable solutions, staff face the challenge of convincing local actors to provide—on a commercial basis—the training, technical assistance, appropriate inputs and technologies needed by growers over the long run. Farmers’ need for high quality technical assistance does not necessarily disappear after project support ends; some constraints may be ongoing and require sustainable sources of expertise. In many cases, this expertise can come from other actors in the supply chain in the form of embedded services.

Ensuring the sustainability of impacts requires thinking—from the beginning—how to exit from project assistance and build the long-term capacity of local sources of technical assistance and expertise. To enhance the sustainability, CDA turned to a

### SUSTAINABILITY UPDATE

Chestnut Hills Farm officially took over on June 30, 2004, the technical assistance program, and it is now “providing all of the services previously provided by CDA [to its outsourced growers]: technical assistance, establishment of planting schedules, logistical coordination, and quality control,” according to the June 2004 CDA bulletin.



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Pineapple processing

major local exporter of Jalapeño peppers, Chestnut Hill Farms. Between 2000 and 2001, expanding the quantity of produce outsourced from CDA-assisted growers, Chestnut Hill believed that outsourcing would both benefit growers and prove to be commercially viable for Chestnut Hill, if—and only if—CDA would demonstrate its potential.

At first, CDA provided the necessary logistics and coordination to organize the many small producers and ensure the quality of produce and on-time delivery. As a result, CDA growers became important suppliers to Chestnut Hill. Over time, however, CDA began looking for an exit strategy, realizing that either Chestnut Hill would take over CDA’s role or the project would have to find an alternate way of building sustainability. Eventually, Chestnut Hill saw that taking over CDA’s role was in their commercial interest (see box).

Another CDA partner, Hortifruti,<sup>2</sup> began to develop their own staff’s technical capacities after observing the way CDA assistance improved the productivity of the small growers upon whom Hortifruti depended for the bulk of their product. Seeing the benefits of production advice—which “radically changed the attitudes of producers,”<sup>3</sup> Hortifruti developed an extensive manual for its staff to use in training outsourced growers.

Both of these cases demonstrate the possibility of passing off the provision of technical assistance to local actors. Nevertheless, especially in the case of Chestnut Hill, CDA realized the importance of an upfront exit strategy that allows for planning and sufficient

<sup>2</sup> Hortifruti is the “buying arm” of an affiliate of the Costa Rican supermarket chain, CSU, which recently entered into a three-way joint venture called Central American Retail Holding Company with the Dutch food/grocery conglomerate Royal Ahold and Guatemalan supermarket chain La Fragua.

<sup>3</sup> Interview with General Manager, Hortifruti/Honduras, December 7, 2002.

time for capacity building of local service providers.

## **SHIFT PROVISION OF INPUTS AND TECHNOLOGIES TO LOCAL ACTORS**

In introducing new technologies and inputs, CDA also looked for strategies to ensure sustainability of project impacts. Whether promoting greenhouses or lower-cost irrigation technologies, CDA worked to solve short-term bottlenecks by fostering the growth of commercial markets of local providers for these inputs that would outlive the project.

To illustrate, drip irrigation was fundamental to growers' improved productivity and essential for implementing CDA recommendations for calendarized growing and staggered production. However, the equipment was expensive and beyond the means of many low-income farmers with only a few hectares of land. There were few, if any, financial institutions willing to provide investment credit to smallholder farmers. To solve this dilemma CDA offered various cost-sharing deals to a select number of clients who were willing to take a risk and likely to succeed. In parallel, CDA

looked for innovative ways to reduce these costs of the equipment. For example, CDA helped promote the sale of lower-cost sand filters and second-hand irrigation hoses—two parts of the drip irrigation system that are essential but typically quite expensive. By interacting directly with entrepreneurs interested in designing lower-cost sand filters, and by negotiating the sale of second-hand hoses, CDA was able to address problems of affordability through commercial means that would live on well beyond the life of the project.

Regarding cost-sharing, CDA hypothesized that their direct technical assistance combined with the cost-sharing of investments created demonstration effects which, in turn, served to reduce the risks of investing in a new technology. Rather than resolving the immediate bottleneck by giving producers the equipment, CDA strengthened the local market for equipment and entered into strategic alliances with microfinance institutions to expand growers' access to finance.

Another illustration of shifting provision of inputs to local actors is provided by CDA's work with several seedling producers. By providing technical assistance and limited co-

financing, CDA helped seedling suppliers adapt their products to small producers, representing a shift to a new client segment. While seedlings were already available to larger commercial farms, CDA's support helped seedling producers construct smaller, lower-cost greenhouses to serve small farmers. Many of these seedling suppliers have since gone beyond the traditional greenhouse service and offered services that enhance client loyalty. For example, COHORSIL, a growers' cooperative, offers extension services to its clients, and another seedling supplier is in the process of developing an outreach (marketing) program for its clients.

Strengthening supporting markets in Honduras has proven to be a highly effective way of overcoming value-chain constraints, while building sustainable access to expertise, services and inputs. In developing supporting markets, CDA has enhanced the capacity of value-chain actors to find solutions to their own problems. The project has also brought more advanced and effective agricultural practices within reach of poorer producers—and done so in a commercially viable way.



## ADAPTING PROJECT IMPLEMENTATION TO LOCAL CONTEXT

When designing CDA, USAID/Honduras and Fintrac were both faced with the challenge of achieving Mission strategic objectives and results—that is, increased exports of non-traditional agricultural products and improved incomes of small farmers—while taking into account Honduras’ unique post-disaster circumstances. Balancing an appreciation of this context with commercial principles became a key principle in CDA’s philosophy.

In contrast to the typical USAID agribusiness project that might have a three to five year timeframe, in post-Mitch Honduras, CDA faced a much more immediate time frame. Forced to deal with the ravaged economy on top of a legacy of mistrust resulting from past projects, CDA was awarded a renewable one-year contract by USAID/Honduras. If successful, the project would continue. If not, the USAID Mission would search for other ways of jumpstarting the Honduras’ horticulture sector.

This short timeframe meant that efforts to improve the long-term competitiveness of the sector would need to occur alongside the primary focus on short-term results. In some cases, the timeframe necessitated tradeoffs between short- and long-term goals. For example, in the case of Chestnut Hill, which initially relied on

CDA for the organization and technical assistance of its smallholder producers, the short-term nature of the project design may have created incentives for CDA to spend less time on the slower and more painstaking process of preparing the local exporter to fulfill CDA’s technical assistance role. In other cases, CDA was able to achieve a balance between these short- and long-term goals, especially where project staff believed that short-term impacts would be enhanced by building the capacity of local actors to solve the problems and constraints in the value chains.

Both USAID/Honduras and CDA made the local environment a key driver in project design and implementation, avoiding cookie-cutter solutions. The importance of the local context came, however, with a caveat: adapting to the local context can affect the incentives of the implementing organization. For instance, CDA prioritized immediate results over long-term development objectives. As a result, some of the efforts aimed at enhancing sustainability were not initiated until several years into the project. In a different context, CDA would have planned for sustainability at the start of the project.



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Training in eggplant production



## LESSONS LEARNED & GUIDING PRINCIPLES FOR SUSTAINABILITY

The CDA project demonstrated some important lessons for programs aimed at generating economic growth and poverty reduction. Central to the lessons learned was CDA's ability to achieve "quick results" as well as long-term sustainability. This "jumpstarting" approach—while highly successful in the case of Honduras—was achieved by following some fundamental principles.

- 1. Targeting subsidies to create a strong demonstration effect can be an effective strategy for catalyzing new behaviors and expanding the adoption of innovations beyond directly-assisted clients.**

Through the expertise and technical assistance of its staff, CDA was able to ensure the success of its "lead clients," who, in turn, influenced their neighbors to copy their new production techniques. Although assistance to the "lead clients" was subsidized by the project, the indirect effects were not subsidized and far exceeded direct effects.

- 2. Successful demonstration effects require highly qualified technical experts and are strengthened by relying on already existing firms and firm-to-firm relationships and the local provision of services and technical assistance.**

The technical quality of CDA's staff was key to providing producers with the support they needed to succeed. Moreover, working with existing firms

and existing market relationships in creating demonstration effects was not only more efficient than trying to create new businesses and relationships but also laid the foundation for long-term sustainability.

- 3. Smallholders can contribute to the competitiveness of subsectors if they are organized, their capacity is strengthened, and they have access to sustainable sources of support.**

The case of CDA clearly demonstrates that smallholders can play an important role in improving competitiveness of value chains or subsectors. In the case of Chestnut Hills, CDA invested subsidies in demonstrating to this exporter that smallholders can be profitable business partners. As Chestnut Hills appreciated the commercial benefits of working with small producers, they became increasingly willing to take on the roles of oversight, production assistance and logistics management initially played by CDA. Hortifruti, another CDA partner, was also willing and ready to provide this type of support to small farmers, as soon as they began to see farmers' "change of mentality."

- 4. Avoiding a purely transaction-based approach to agribusiness development, in favor of strategies that focus on addressing priority constraints that affect multiple crops and/or subsectors is an effective strategy for building local capacity (to react to future**

**market changes) and long-term sustainability.**

While focusing on quick results, CDA also adopted a perspective beyond a unique focus on sales. Rather than just counting value of transactions, CDA worked to develop the capacity of producers to respond to future changes in the market. They did this by transferring to producers the skills and know-how that could be applied to a range of crops or products: skills such as integrated pest management, drip-irrigation and greenhouse technologies.

- 5. "Win-win" relationships—in which actors in the supply chain engage in behaviors that lead to mutual improvements in productivity and adoption of innovations—are fundamental to long-term competitiveness.**

CDA was able to convince firms in a market relationship to behave in ways that served not only their self interest but that of the firms with whom they transacted. By demonstrating to firms that "win-win" relationships—in the longer term—would lead to improvements for all, CDA was successful in developing incentives that furthered competitiveness.

6. **Innovation—defined broadly as the introduction of new ways of doing business more efficiently—can be encouraged by increasing the likelihood of success for risky new ventures.**

Recognizing a clear link between innovation, sustained productivity increases, and broad-based economic growth,<sup>4</sup> CDA was able to successfully “buy down” the risk of promising but risky ventures through cost sharing and direct assistance to value chain actors. By helping these actors craft transparent new business models and adapt technologies to the needs of small producers, CDA encouraged innovation through their hands-on approach to assistance.

7. **Strong supporting markets for irrigation equipment, or financial services, are important factors contributing to value chain competitiveness—project interventions should therefore avoid the temptation to distort or undermine these markets with giveaways.**

In order to ensure sustainability, CDA assisted local irrigation equipment suppliers in reducing the cost of their products in order to make them more affordable growers. In other words, they strengthened the private sector rather than undermining it with subsidized equipment. At the same time, CDA linked producers to banks and microfinance services, further solidifying producers ability to access equipment over the long run.

8. **Establishing an exit strategy as early as possible for project interventions is also fundamental to long-term sustainability.**

CDA was particularly pressed to produce quick results. Under normal circumstances, they would have worked toward developing sustainable sources of technical assistance, technology and finance from the onset of the project. Nonetheless, CDA realized the importance of an exit strategy early on, so that the project has had time to develop the capacity of local service and input providers, who will ensure the long-term sustainability of project impacts

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<sup>4</sup> In “Hidden sources of growth? Looking at microenterprises through the competitiveness lens,” (DAI 2003) Ulrich Ernst made this link in concluding that small firms have the potential to contribute to competitiveness and economic growth if they engage in innovative behavior.